Reduce Waste, Energy and Water – and Boost Your Bottom Line

*[by HIPInvestor](http://www.triplepundit.com/topic/invest-for-income-and-impact/) on Sunday, Mar 25th, 2012*

*7th in a series of excerpts from the book*[*The HIP Investor*](http://www.amazon.com/dp/0470575123/?tag=trippund-20)*(John Wiley & Sons, 2010). See other articles in the series*[*here*](http://www.triplepundit.com/topic/invest-for-income-and-impact/)*.*

Companies are now realizing the value to be gained by optimizing earth’s resources, not just extracting or mining them. One leader is [Kohlberg Kravis Roberts](http://www.kkr.com/)(KKR), the famed private equity firm that owns over 45 companies including Toys ‘R’ Us and mattress maker Sealy. Since May 2008, KKR has partnered with the [Environmental Defense Fund](http://www.edf.org/) (EDF) on the Green Portfolio Project to develop metrics and test which eco-efficient initiatives are most valuable to the business. As of February 2009, EDF/KKR’s collaborative initiatives at Sealy realized $16 million in bottom-line benefit and saved 25,000 metric tons of greenhouse gas emissions, including reduced mattress scrap and advanced trucking efficiency. EDF is taking the lessons learned from these initiatives to other firms in the KKR portfolio, constructing a “how-to” guide.

Public companies are increasingly tracking earth-related metrics, from waste to water to carbon and energy. As a HIP investor, you will see improvements in reporting these metrics over time, and will be better prepared to identify leading companies who will have higher profits and shareholder value.

Companies focused on optimizing earth’s resources can benefit from lower material, energy, and water bills. They can earn tax savings from renewable energy investments, spur new revenue from customers seeking eco-efficient products, and enhance the value of the brand. As HIP Investor’s calculations have shown, a portfolio of these top performers in Earth metrics can yield higher returns and are positioned for lower financial risk.

**HIP Earth Metrics**

HIP investors can use four quantifiable metrics to evaluate companies on their usage of nature’s resources:

1. Waste Re-usage  
2. Water Efficiency  
3. Energy Efficiency  
4. Greenhouse Gas Emissions

**1. Waste Re-usage, Re-cycle, and Re-sale; Resource Efficiency**

Limiting waste is an obvious benefit: It reduces costs and lessens the amount of resources used. So, how are we doing? About 6 percent of all the material inputs going into a manufacturing process come out the other end as a finished product while 94 percent are un-used or wasted, according to [INSEAD](http://www.insead.edu/home/) professor Robert Underwood Ayres.

Eliminating waste can even boost top line revenue through what can be called “trash to cash.” [Waste Management Inc.](http://www.wm.com/index.jsp) (NYSE: WM), a traditional garbage removal company, now considers itself a materials manager: It seeks out innovative ways to generate revenue from collecting and moving garbage. Today, it operates around 300 landfills with associated collections and transfer points across North America, serving over 20 million customers. Those landfills gestate gases like methane that can be recaptured and turned into energy. Since methane is equivalent to 21 units of carbon emissions, capturing it can power new energy-generation while reducing emissions. Furthermore, Waste Management’s recycling revenues account for nearly 10 percent of its total revenue. Cost centers, like trash, are becoming revenue centers for cash.

**2. Water Efficiency, Re-capture and Re-use**

Water is a precious resource that is increasingly strained. The planet is 70 percent water, but most of it is salt water. Fresh water is increasingly at risk and becoming scarce, as evidenced in the Southeast United States in 2008.

Both [Ball Corp.](http://www.ball.com/) (NYSE:BLL) (46 percent water recycling) and [Devon Energy](http://www.dvn.com/Pages/devon_energy_home.aspx) (NYSE:DVN) (80 percent water recycling) avoid taking new water from river systems and instead re-use existing water for manufacturing and production. The ecological and financial benefits are pretty straightforward; by reusing such a scarce resource, these companies leave more water for the planet to flourish, and by reducing inputs they reduce cost and increase bottom line profit.

**3. Energy Efficiency and Renewable Power**

Energy efficiency clearly contributes to lower costs and lower environmental impact. A HIP investor will recognize that the power of eco-efficient initiatives amplifies when a company designs for more than one goal. For example, cosmetics maker Estee Lauder converted 54 percent of its disposable waste to energy in 2007, saving costs in hauling waste and purchasing new energy. [Estee Lauder](http://www.esteelauder.com/index.tmpl) (NYSE: EL) has also become a renewable energy leader by partnering with DomeTech to install 3,200 solar panels at a fragrance factory, which supplies half of the plant’s daytime energy needs—at a projected savings of 10,000 tons of carbon emissions over the life of the system. This installation is one of the largest solar energy systems in the United States outside a utility.

A HIP investor can estimate energy intensity and compare among industry peers. Some companies report energy usage (in gigajoules); others report kilowatt-hours of electric purchases—dividing either measure (usage or purchases) by revenue, you can compare energy intensity. You can then use that measure to compare across companies within a sector or to look at trends over time. Remember renewable energy eliminates the need for fossil fuels, the attendant pollution, and the risks associated with volatile price swings — an eco-efficient triple play. We look for this metric not only to reduce risk, but to increase top line sales (as consumers incorporate efficiency into their shopping habits), as well as bottom line revenue where reduced costs equal higher profits.

**4. Greenhouse Gas Emissions, Intensity, and Reductions**

Tracking carbon is an emerging discipline. It has sprouted into a new field of managerial accounting. Companies that track their overall carbon emissions, from [GE](http://www.ge.com/) (NYSE: GE) to [Dow](http://www.dow.com/) (NYSE: DOW) to [Walmart](http://www.walmart.com/) (NYSE: WMT) understand their carbon “footprint” and consequently know how to manage it. Reducing carbon leads to reductions of energy, cost and pollution.

[The Carbon Disclosure Project](https://www.cdproject.net/en-US/Pages/HomePage.aspx) (CDP), a nonprofit based in London, is a clearinghouse of information on these greenhouse gas (GHG) emissions. The CDP involves 655 institutional investors representing $78 trillion of assets.

A HIP investor will want to know if a company is tracking its emissions and reporting that data. As of year-end 2008, two in three companies of the largest 500 in the United States have neither declared carbon reduction goals, nor time frames for potential reductions. HIP investors value the companies that disclose their emissions, set specific time tables for reductions, and benefit from the lower costs and risks associated with this path. HIP’s analysis indicates that a portfolio that highly weights the leaders in emissions reduction can generate both a positive Earth impact and increased opportunities for higher profit.  Please see [CDP’s Leadership Index](https://www.cdproject.net/en-US/Results/Pages/leadership-index.aspx) that supports this.

We have all heard the moniker, “REDUCE REUSE RECYCLE.” When we safely reduce waste in our product or service development, we have more for all parties involved: More for the consumer who spends less, more for the company to produce more products, and more for the Earth and its stakeholders to live and grow into. Now that is HIP.

In our next feature, we will explore how Equality in the workplace can drive performance through nurtured creativity and enhanced market understanding. By investing with these principles, we can foresee a better world, built on a fair and balanced workforce.

To navigate this series, [please use this table of contents](http://www.triplepundit.com/topic/invest-for-income-and-impact/).

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R. Paul Herman\* created the HIP (Human Impact + Profit) methodology for entrepreneurs, companies and investors worldwide to realize how quantifiable sustainability can drive financial performance.Herman advises investors, designs HIP portfolios, and manages the HIP 100 Index -- all applying “The HIPScorecard” featured in his 2010 book (The HIP Investor; Make Bigger Profits by Building a Better World; John Wiley & Sons), Fast Company magazine, business school curricula, and at [[http://www.triplepundit.com/wp-content/themes/triplepundit-v4/assets/img/twitter_logo_blue.png](http://www.triplepundit.com/2012/03/reduce-waste-energy-water-boost-bottom-line/www.HIPinvestor.com%3ewww.HIPinvestor.com%3c/a%3e.Herman%E2%80%99s%20financial%20acumen%20was%20honed%20at%20the%20Wharton%20School%20and%20McKinsey%20&%20Co.,%20and%20he%20accelerated%20social%20entrepreneurs%20at%20Ashoka.org%20and%20Omidyar%20Network.%20Herman%20has%20advised%20leading%20corporations%20(including%20Walmart%20and%20NIKE),%20family%20offices%20and%20foundations%20on%20how%20to%20be%20more%20HIP.%20His%20insights%20have%20been%20quoted%20in%20the%20Wall%20Street%20Journal,%20The%20New%20York%20Times,%20Fortune,%20Forbes,%20BusinessWeek,%20and%20on%20CNN,%20Reuters,%20Morningstar.com%20and%20CNBC.%3cem%3e*%20R.%20Paul%20Herman%20is%20CEO%20and%20a%20registered%20representative%20of%20HIP%20Investor%20Inc.,%20an%20investment%20adviser%20registered%20in%20California,%20Washington,%20and%20Illinois.%3c/em%3e%3c/p%3e%3cpclass=)Follow HIPInvestor](http://www.triplepundit.com/2012/03/reduce-waste-energy-water-boost-bottom-line/www.HIPinvestor.com%3Ewww.HIPinvestor.com%3C/a%3E.Herman%E2%80%99s%20financial%20acumen%20was%20honed%20at%20the%20Wharton%20School%20and%20McKinsey%20&%20Co.,%20and%20he%20accelerated%20social%20entrepreneurs%20at%20Ashoka.org%20and%20Omidyar%20Network.%20Herman%20has%20advised%20leading%20corporations%20(including%20Walmart%20and%20NIKE),%20family%20offices%20and%20foundations%20on%20how%20to%20be%20more%20HIP.%20His%20insights%20have%20been%20quoted%20in%20the%20Wall%20Street%20Journal,%20The%20New%20York%20Times,%20Fortune,%20Forbes,%20BusinessWeek,%20and%20on%20CNN,%20Reuters,%20Morningstar.com%20and%20CNBC.%3Cem%3E*%20R.%20Paul%20Herman%20is%20CEO%20and%20a%20registered%20representative%20of%20HIP%20Investor%20Inc.,%20an%20investment%20adviser%20registered%20in%20California,%20Washington,%20and%20Illinois.%3C/em%3E%3C/p%3E%3Cpclass=)[@triplepundit](http://twitter.com/triplepundit)

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